

Amended and restated Final Terms dated 15 March 2012 replacing those of 17 February 2012

APPLICABLE FINAL TERMS

ARION BANK HF

Issue of ISK 2,500,000,000.00 Index Linked Covered Bonds under the €1,000,000,000 Covered Bond Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated 9 February 2012 which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**) as amended (which includes the amendments made by Directive 2010/73/EU (the **2010 PD Amending Directive**) to the extent that such amendments have been implemented in a relevant Member State). This document amends, restates and replaces the final terms dated 17 February 2012 and constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Offering Circular. Full information on the Issuer and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Offering Circular. The Offering Circular and the Final Terms are available for viewing at Arion Bank hf., Borgartún 19, 105 Reykjavík, Iceland, on the Luxembourg Stock Exchange's website at www.bourse.lu and from the registered office of the Issuer and on the website of the Issuer at www.arionbanki.is and from the specified office of the Agent in London and will be on the Icelandic Financial Supervisory Authority website at www.fme.is.

1.	Issuer	Arion Bank hf.
2.	(a) Series Number:	1
	(b) Tranche Number:	1
3.	Specified Currency or Currencies:	ISK
4.	Aggregate Nominal Amount:	
	– Tranche:	2,500,000,000
	– Series:	2,500,000,000
5.	Issue Price:	100% of the Aggregate Nominal Amount
6.	(a) Specified Denominations:	ISK 20,000,000
	(b) Calculation Amount	ISK 20,000,000
7.	(a) Issue Date:	17 February 2012
	(b) Interest Rate:	Inflation Linked

(c)	Interest Commencement Date:	21 February 2012
8.	Maturity Date:	21 February 2034
9.	Extended Final Maturity Date:	Not Applicable
10.	Interest Basis:	Index Linked Interest (further particulars specified below)
11.	Redemption/Payment Basis:	Index Linked Redemption
12.	Change of Interest Basis or Redemption/Payment Basis:	Not Applicable
13.	Put/Call Options:	Issuer call. The Issuer has the right to call the Covered Bonds on the Interest Payment Date falling on 21 February 2017 and on each Interest Payment Date thereafter.
14.	(a) Status of the Covered Bonds:	Senior
	(b) Board approval for issuance of Covered Bonds obtained:	2 March 2011 and 11 October 2011
15.	Method of distribution:	Syndicated
16.	Name and address of the Calculation Agent	Arion Bank hf. Borgartún 19, 105 Reykjavík, Iceland

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

17.	Fixed Rate Covered Bond Provisions	Not Applicable
18.	Floating Rate Covered Bond Provisions	Not Applicable
19.	Zero Coupon Covered Bond Provisions	Not Applicable
20.	Index Linked Interest Covered Bond Provisions	Applicable (Index Linked Covered Bonds). See item 34 below.
21.	Dual Currency Interest Covered Bond Provisions	Not Applicable

PROVISIONS RELATING TO REDEMPTION

22.	Issuer Call	Applicable
	(a) Optional Redemption Date(s):	On the Interest Payment Date falling on 21 February 2017 and on each Interest Payment Date thereafter.
	(b) Optional Redemption Amount of each Covered Bond and method, if any, of calculation of such	The Optional Redemption Amount per Calculation Amount shall be equal to the aggregate of (a) the product of the Index Ratio and the initial Calculation

amount(s): Amount of the Covered Bond (after deducting Nominal Amounts comprised in Annuity Payments made on or prior to the Optional Redemption Date as referred to in item 34 below (the "**Net Nominal Amount**")), plus (b) an amount equal to $A \times B \times C$ where

$A = 0.01$

$B =$ the Net Nominal Amount

$C =$ the Index Ratio

(c) If redeemable in part:

(i) Minimum Redemption Amount: Not Applicable

(ii) Maximum Redemption Amount: Not Applicable

23. Investor Put: Not Applicable
24. Final Redemption Amount of each Covered Bond: See item 34(e)
25. Early Redemption Amount of each Covered Bond payable on redemption for taxation reasons and/or the method of calculating the same (if required or if different from that set out in Condition 8.5): The Early Redemption Amount per Calculation Amount shall be the product of the Net Nominal Amount and the Index Ratio.

GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

26. Form of Covered Bonds: ISD Covered Bonds
ISD Covered Bonds issued in uncertificated and dematerialised book entry form. See further item 6 of Part B below.
27. New Global Covered Bond: No
28. Additional Financial Centre(s) or other special provisions relating to Payment Dates: Not Applicable
29. Talons for future Coupons or Receipts to be attached to definitive Covered Bonds in bearer form (and dates on which such Talons mature): No
30. Details relating to Partly Paid Covered Bonds: amount of each payment comprising the Issue Price and date on which each: Not Applicable

payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Covered Bonds and interest due on late payment:

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| 31. | Details relating to Instalment Covered Bonds; amount of each instalment, date on which each payment is to be made: | Not Applicable |
| 32. | Redenomination: | Redenomination not applicable |
| 33. | (a) Swap Provider | Not applicable |
| | (b) Nature of Swap | Not applicable |
| 34. | Other final terms: | |

Payments in respect of Index Linked Covered Bonds

The Issuer shall, on each Interest Payment Date, make a combined payment of principal due under Condition 8.1, interest due under Condition 6.2(d), and an indexation amount (together, the **Annuity Amount**) as calculated by the Calculation Agent in accordance with the formula specified in item 34(e) of these Final Terms.

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| (a) | Rate(s) of Interest: | 3.6 per cent. payable on each Interest Payment Date |
| (b) | Interest Payment Date(s): | The 21st day of February and August in each year up to and including the Final Maturity Date, with the first Interest Payment being 21 August 2012. |
| (c) | Day Count Fraction: | 30/360 |
| (d) | Nominal Amount redeemable on each Interest Payment Date as part of the Annuity Amount: | An amount calculated by the Calculation Agent in respect of the Calculation Amount in accordance with the following formula: |

$$A = \frac{r(1+r)^k - 1}{(1+r)^n - 1} \times d$$

where:

A = The amount of the Covered Bonds;

$$r = \frac{c}{2};$$

c = The Rate of Interest applicable to the relevant Covered Bonds;

d = The Calculation Amount of the Covered Bonds;

n = 44; and

k = The number of payments that have already taken place + 1 (k = 1 for the first payment, k = 2 for the second payment, etc)

(e) Annuity Amount:

The Annuity Amount payable per Calculation Amount on each Interest Payment Date shall be calculated as follows:

$$P = \frac{r}{1 - (1 + r)^{-n}} \times IR \times d$$

where:

P = The Annuity Amount comprising a combined payment of principal, interest and indexation amount of the relevant Covered Bonds;

$$r = \frac{c}{2};$$

c = The Rate of Interest of the Covered Bonds;

d = The Calculation Amount of the Covered Bonds;

n = 44; and

IR = The Index Ratio as determined in accordance with subparagraph (g) below

(f) Initial Annuity Amount:

The Initial Annuity Amount payable on the Interest Payment Date falling on 21 August, 2012 shall be ISK 82,741,819.74 being ISK 661,934.56 per ISK 20,000,000 Calculation Amount.

(g) Index Ratio:

The value of the Index Ratio (**IR**) on each Interest Payment Date shall be the value of the Reference Index (**RI**) applicable to the relevant Interest Payment Date divided by the value of the Base Index (**BI**) as calculated by the Calculation Agent

$$\text{being } IR = \frac{RI}{BI}$$

where:

Reference Index or RI means:

(i) for the first day of the relevant calendar month, the value of the Consumer Price

Index (the CPI) for the relevant month as calculated by Statistics Iceland pursuant to the Consumer Price Index Act of 1995 (lög um vísitölu neysluverðs nr. 12/1995) and published monthly in the Legal Gazette (Lögbirtingarblaðið);

- (ii) for each day in the relevant calendar month other than the first day:

$$RI = CPI_t + \frac{d-1}{30} \times (CPI_{t+1} - CPI_t) \text{ where:}$$

RI = Reference Index;

CPI_t = CPI value for the first day of the relevant calendar month;

CPI_{t+1} = Succeeding Month CPI;

d = The day number of the month;

Base Index means 386.7333, being the value of the CPI on 21 February 2012.

If at any time a new index is substituted for the CPI, as of the calendar month from and including that in which such substitution takes effect:

- (i) the Reference Index shall be deemed to refer to the new index; and
- (ii) the new Base Index shall be the product of the existing Base Index and the Reference Index immediately following such substitution, divided by the Reference Index immediately prior to such substitution.

DISTRIBUTION

35. (a) If syndicated, names of Managers: Arion Bank hf.
Barclays Bank PLC
- (b) Date of Subscription Agreement: 20 February 2012
36. If non-syndicated, name of Dealer: Not applicable
37. U.S. Selling Restrictions: Not applicable
38. Additional selling restrictions: Not applicable

PURPOSE OF FINAL TERMS

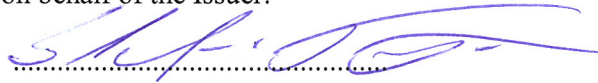
These Final Terms comprise the final terms required for listing on the official list of the Luxembourg Stock Exchange, and admission to trading on the Regulated Market of the Luxembourg Stock Exchange and listing on the NASDAQ OMX Iceland hf. and admission to trading on the Regulated Market of the NASDAQ OMX Iceland hf. of the Covered Bonds described herein pursuant to the €1,000,000,000 Covered Bond Programme of Arion Bank hf.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms.

Signed on behalf of the Issuer:

By:

A handwritten signature in blue ink, appearing to be 'M. J. O.', is written over a dotted line.

Duly authorised signatory

PART B – OTHER INFORMATION

- 1. LISTING AND ADMISSION TO TRADING**

Application has been made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on the Regulated Market of the Luxembourg Stock Exchange and, listing on the Official List of the Luxembourg Stock Exchange with effect from 17 February 2012. Application has furthermore been made by the Issuer to have the Covered Bonds admitted to trading on the NASDAQ OMX Iceland hf. and listing on the Regulated Market of the NASDAQ OMX Iceland hf., with effect from 22 February 2012.

Estimate of total expenses related to admission to trading: ISK 2,200,000.00
- 2. RATINGS**

Ratings: The Covered Bonds to be issued have not been rated.
- 3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE**

Save for any fees payable to the Dealer, so far as the Issuer is aware, no person involved in the issue of the Covered Bonds has an interest material to the offer.
- 4. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES**

(i) Reasons for the offer	As set out in "Use of Proceeds" in the Prospectus
(ii) Estimated net proceeds:	ISK 2,497,800,000.00
(iii) Estimated total expenses:	ISK 2,200,000.00
- 5. PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING**
- 6. OPERATIONAL INFORMATION**

(i) ISIN Code:	IS0000021186
(ii) Common Code:	074955282
(iii) Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme (together with the address of each such clearing system) and the relevant identification number(s):	Icelandic Securities Depository Ltd. Laugavegur 182, 105 Reykjavik, Iceland ID No. 500797-3209

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| (iv) | Delivery: | Delivery free of payment |
| (v) | Names and addresses of additional Paying Agent(s) (if any) or, in the case of ISD Covered Bonds, the ISD Agent: | Arion Bank hf.
Borgartún 19, 105 Reykjavík, Iceland |
| (vi) | Intended to be held in a manner which would allow Eurosystem eligibility: | No |